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Beware the hidden costs of The Vice Fund

Every year I attend the SRI (Socially Responsible Investing) conference, I return home determined to become an evangelist for socially responsible finance. In the wake of corporate scandals, investors are embracing socially responsible finance: Investments can achieve a double bottom line of profit and social impact. With \$2.16 trillion in assets in portfolios managed with socially responsible strategies, choices cover 200 socially-screened mutual funds, from Domini Social Investments, to community development banks like University Bank.

Yet I still find it challenging to convince colleagues to adopt financial strategies based on their personal values. Some believe in making money at all costs. Have you heard of The Vice Fund? Although it's an intriguing concept, The Fund rewards the industries responsible for some of society's biggest heartaches. The \$46 million Fund invests in companies like Imperial Tobacco, Diageo and Harrah's, which sell, in the Fund's words, "products often considered socially 'irresponsible'" such as alcohol, tobacco, gambling and weapons. The Fund argues that addictive industries are nearly "recession-proof" because "people will always smoke, drink, gamble and fight." The real enticement is an annualized total return of 16.63 percent since 2002.

The pragmatism of the Vice Fund contrasts sharply with the values of Socially Responsible Finance. "There's a big difference between irresponsible living and irresponsible investing," Vice Fund portfolio manager Charles Norton told *The*



Guest Opinion

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responsibility isn't limited to maximizing rates of return, but includes balancing that return with investments that complement their mission. A company with a high rate of return that pollutes our groundwater would not be a good investment because the return doesn't justify violating the clean water.

When the Vice Fund claims a rate of return for your investment in tobacco stocks, it's not revealing the fully loaded cost to taxpayers. If someone in your family has cancer, you're aware that the cost of tobacco stocks also is measured in soaring medical costs, higher insurance rates, and increased taxes so government can care for uninsured smokers.

When our bank invites depositors to earmark their dollars for affordable housing initiatives through our Socially Responsible Deposit Fund, we explain the return on investment for our brand

Wall Street Journal. "Being socially responsible in life is a good thing, but it shouldn't interfere with making a good investment."

Well actually, yes, it should; why would you divorce your moral life from your financial life? Foundation boards know their fiduciary

of socially responsible banking. But not all of these "returns" appear on a monthly statement. For example, if you help create more affordable housing, families are less transient, kids stay in schools longer and, consequently, more will graduate. If students graduate from high school, they are 50 percent less likely to be incarcerated, a cost of \$40,000/year per prisoner from your taxes! Take that "return" on your socially responsible investment one step further: With more stable housing and employment, you can expect more homeownership, less crime and drug use and fewer police calls.

The beauty of socially responsible investing is that you can tailor your portfolio to your values about social justice and morality. I don't care to invest in tobacco, but I'm neutral about alcohol; I hunt pheasant, so I'm not anti-gun; and to me, gambling is just entertainment, although I recognize for others, it's an addiction.

Ultimately, investors must decide what kind of a world they want their children to inherit. Perhaps one of the greatest legacies we can leave our sons and daughters is the idea that the value of a dollar can be measured in ways that extend beyond numbers on a balance sheet, so that our children learn to invest with their conscience as well as with their wallets.

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